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SCOTT



SCOTT PAPER LIMITED ANNUAL REPORT 1979

Scott Paper Limited 1979 Annual Report

Head Office/Vancouver, British Columbia
Plants/New Westminster,

British Columbia; Crabtree and
Lennoxville, Quebec

Sales Offices/Vancouver, Winnipeg, Toronto,
Montreal and Dartmouth

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Secrétaire.



Winter on the West Coast. Robert Genn's painting "At Hardy Islets" captures the solitude and grandeur of the forest as it meets the rocks in a small cove on the eastern shore of northern Vancouver Island. As we enter the new decade, with its vast arena of opportunities for our company, it is appropriate that this year's cover should symbolize our country's wealth of magnificent forests, without which our industry would not exist. Genn is a well-known Canadian artist.

Financial Highlights

FOR THE YEAR

	1979	1978	
	(thousands of dollars except per share)		percent change
Net sales	\$140,522	\$116,539	20.6
Depreciation	4,732	4,661	1.5
Interest expense	2,660	2,705	(1.7)
Income before taxes	9,806	6,555	49.6
per share	3.99	2.70	
Income taxes	3,542	2,316	52.9
Income after taxes	6,264	4,239	47.8
per share	2.55	1.75	
Dividends	1,589	1,179	34.8
per share	.65	.49	
Income reinvested in the business	4,675	3,060	52.8
Cash flow from operations	11,938	11,026	8.3
per share	4.86	4.54	
Capital expenditures	5,255	7,773	(32.4)
Salaries, wages and benefits	35,901	30,867	16.3

AT YEAR END

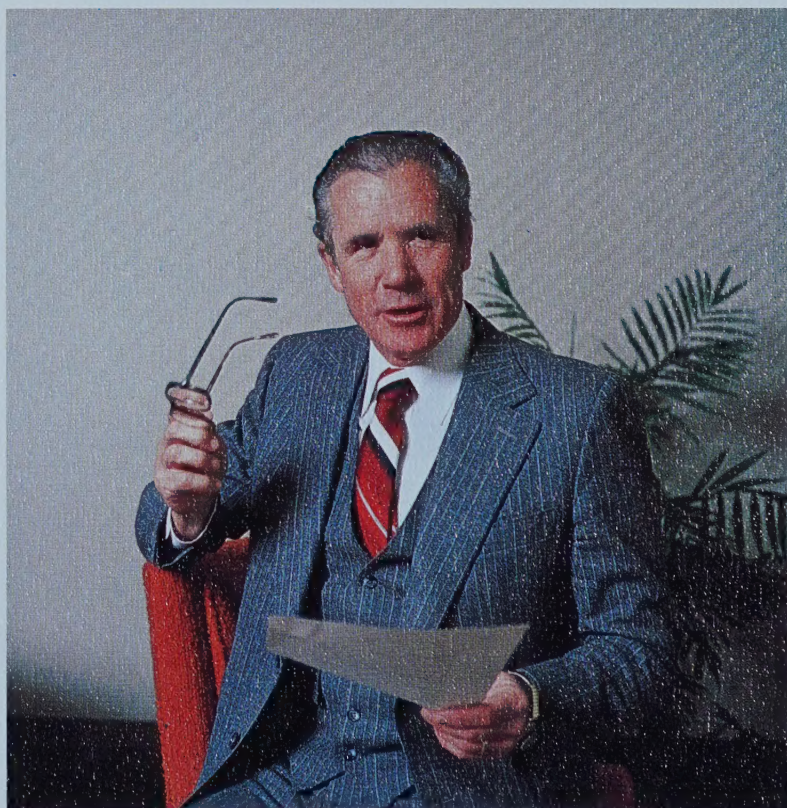
Ratio current assets to current liabilities	1.6	1.7
Long term debt	\$ 16,336	\$ 19,286
Shareholders' interest per share	\$ 16.45	\$ 14.63
Number of shares outstanding at year end	2,455,900	2,426,250
Number of shareholders	1,232	1,130
Number of employees	1,561	1,530
Investment in assets per employee	\$ 44	\$ 43

Chairman's Message to Employees and Shareholders

Scott Paper Limited has completed a very successful year. Sales of \$140,522,000 were 20.6 per cent above sales of \$116,539,000 in 1978. Net income at \$6,264,000 was 47.8 per cent ahead of last year. The foregoing resulted in improvements in the rates of return on sales, on investment, and on equity. It should be noted that foreign exchange is not a significant factor in Scott Paper Limited's revenues.

Sales improved as a result of the overall performance of most product lines including, in particular, the company's newer products, *Cottonelle* in the East and *Pillow Soft Purex* in Western Canada. Additional sales stimulus was provided by the industrial division products with the introduction of a new industrial wiper, *Wypall*.

Income rose because of volume increases and productivity and efficiency gains. Scott contended during the year with higher energy and raw material costs, along with increases in salaries, wages and transportation charges. However, the company responded to those increases with a year of near capacity production, improved efficiencies in plant operation that



minimized higher fuel costs, and relatively lower distribution, administration and general expenses. Price increases during the year helped offset some of the higher costs.

A higher cash flow allowed the company to reduce its long-term debt and consequently its interest charges, and to carry out its capital additions including the purchase of a major warehouse facility in Joliette that will permit more efficient distribution of products in the East.

In line with company growth, shareholder approval was given at the 1979 annual meeting for an increase in the board of directors from nine to eleven. A reorganization of the corporate structure was also accomplished during the year to improve management and administrative efficiency. The rearrangement of the three key operating divisions, finance, marketing and manufacturing, each under a vice president and group executive, provides increased opportunity for long-range planning and business development.

In the 1979 annual report, reference was made to an agreement that was being completed with Scott Paper Company of Philadelphia, calling for management and financial participation in research and development programs to be carried out by Scott Paper Company in its United States facilities and elsewhere. That agreement was concluded and the first payment was provided for in this year's accounts.

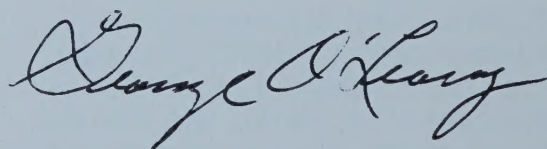
The agreement is a major investment in the future and is intended to provide additional opportunity for Scott Paper Limited to share in important new technological advances. In addition, the program will provide for improved utilization of the research and management skills among Scott Paper Company's international affiliates and subsidiaries, of which there are more than twenty. During the year, Scott Paper Limited

entered into a joint venture with Mölnlycke AB of Sweden to establish Sancella Inc., which will market a new and advanced line of disposable paper products for health care in Canada.

The General Agreement on Tariffs and Trade (GATT), as it stands, provides for a decline in tariff protection that is moderate in its effects as far as Scott Paper is concerned, particularly if the Canadian dollar remains at a level below par with the U.S. dollar. Problems of inflation, affordable energy, and higher raw material costs remain. The company is constantly seeking to improve plant efficiency and reviewing capital investment possibilities to take advantage of new manufacturing and processing opportunities and changing consumer preferences. While Scott Paper Limited is exploring many opportunities, emphasis will remain on serving the domestic and industrial consumer in Canada with new and improved products of quality and value.

The company is looking forward with enthusiasm to the exciting possibilities and opportunities that lie ahead in this new decade, and the directors are confident the company will have the continued support of its employees, suppliers and customers in the achievement of its goals.

FOR THE BOARD OF DIRECTORS



George L. O'Leary
Chairman

Review of the Year

Total sales of both consumer and industrial packaged products in 1979 were ahead of the previous year, and also exceeded planned sales goals. The company's policy of emphasizing high quality and value is continuing to return benefits in terms of sales and market share.

Scott continues to enjoy results flowing from high consumer acceptance of *Cottonelle* in the Eastern Canadian market, and *Pillowly Soft Purex* in the West.

The shortage of textile wiping rags has opened a large market in the industrial wiping field which Scott entered in 1979 with *Wypall*. *Wypall* is made from a unique bonded cellulose material developed from new Scott technology. It has a cloth-like feel, and its properties, which meet most types of industrial wiping requirements, have produced encouraging sales during the introductory period.

Wypall is not only developing a broad market for the Industrial Packaged Products Division, but is opening new customer opportunities for the division's regular industrial products line of bathroom tissues, towels, napkins and facial tissues. The division had an excellent year, and has established a steady record of growth in recent years.

Considerable success was achieved by the "House of Scott Sweepstakes" promotion which offered a \$150,000 home as a top prize, plus other regional and minor prizes. This promotion was backed by television commercials in English and French, print advertisements in the Weekend and Canadian magazines, and a mailing piece that was distributed to households across Canada.

During the year, a national conference was held in Vancouver to brief the sales division on



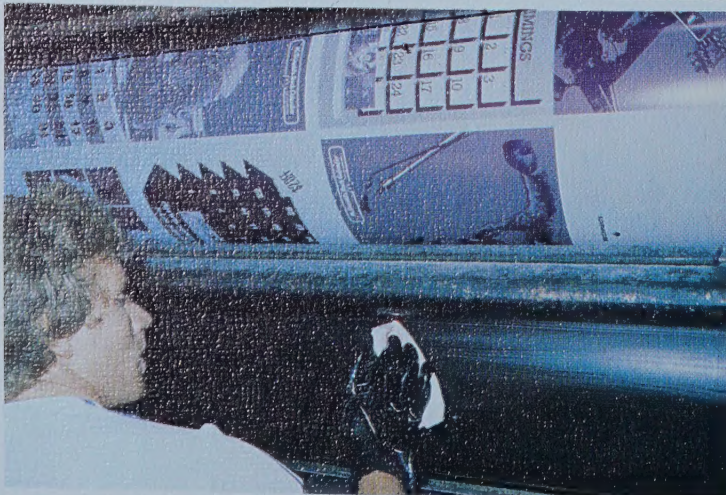
company progress and objectives. "Focus" sessions also were held for employees of the Western Manufacturing and Eastern Manufacturing divisions at which employees were brought up-to-date on company plans and were given the opportunity to question senior officers of the company. These conferences, which are held periodically, have brought about an improved understanding among employees in all divisions of the major contribution everyone has made in working together to achieve company goals. Scott people have been, and will continue to be, the most important factor in the success of the company.

The Manufacturing Division made a strong, positive contribution to operations in 1979. Increased productivity accounts for much of this improvement, and much credit must be given to the people in manufacturing who responded enthusiastically to changing market conditions.

Fibers made by Scott continued to be an important factor in fiber availability, and new production records were set throughout the year in this area. The new Lennoxville Division, which started operating in late 1978, experienced its first full year in manufacturing and made encouraging gains over the 12 month period of 1979.

Pulp prices increased approximately 30 percent in addition to increases in energy, labour and other supplies. There were important offsetting benefits from recent capital investment projects, from many energy intensive savings programmes and from improved materials usage in the plants.

A contract settlement was negotiated with the Canadian Paperworkers' Union, Local 456, in New Westminster in 1979. Three other contracts will be opened for negotiation in 1980. They will affect the Office and Technical Employees'



Union in the Western Manufacturing Division and the corporate office; Le Syndicat des Salariés de les Papiers Scott Limitée at Lennoxville; and Le Syndicat National des Travailleurs des Pâtes et Papiers de Crabtree Inc.

Le Syndicat celebrates its 50th anniversary in 1980, with festivities taking place in February and March at Crabtree. The union at Crabtree holds the distinction of being the oldest within the Confederation of National Trade Unions and has operated without interruption since the purchase of the plant in 1957.

In 1979, an "open house" was held at the Western Manufacturing Division at New Westminster. The event drew large crowds and was highly successful in acquainting families and friends of employees with Scott's operations there.

The increase in net income and cash flow has led to a further strengthening of the company's financial position.

Cash flow from operations improved to \$11,938,000 from \$11,026,000 the year before. Of this approximately \$5,255,000 was applied to capital improvement, including the purchase of the new distribution warehouse at Joliette, \$1,589,000 was paid in dividends to shareholders; and \$2,950,000 was committed to long term debt reduction. As a result, working capital increased approximately \$2,900,000 for the year.

Research and development expenses include payment of \$610,000 under the research and development agreement with Scott Paper Company of Philadelphia.

The consolidated statement of financial position also reflects the mid-year amalgamation of Westminster Paper Company and the subsequent sale of the operations and inventory to Sancella Inc. The amalgamation took effect on June 30th and Sancella Inc. commenced business on July 2nd.

Considerable progress has been made in the last five years in a number of key financial areas in terms of total growth in sales and income and improved rates of return:

	<u>1979</u>	<u>1974</u>	<u>% Increase</u>
	(in thousands)		
Sales.....	\$140,522	\$73,571	91
Net income	6,264	2,937	113
Cash flow			
-operations ..	11,938	7,447	60
Dividends per share	65¢	33¢	
Return on sales	4.5%	4.0%	
Return on investment	10.3%	7.3%	
Return on equity	15.5%	11.8%	

The year 1979 marked the forty-ninth consecutive year in which Scott Paper Limited has paid dividends to its shareholders. The quarterly dividend paid on January 31, 1980 was 20¢ per share, up from 17.5¢ paid on October 31, 1979.

The number of shares outstanding at year-end increased, as a result of the exercise of stock options, to 2,455,900 from 2,426,250 in 1978. During the year, the common stock of the company traded on the Toronto Stock Exchange in the \$9.75 to \$14.00 range. In 1978, the trading range was \$8.00 to \$11.50 and in 1977 share prices ranged from \$7.25 to \$9.75.

The number of employees of Scott Paper increased during the year to 1,561 from 1,530 in 1978. The total paid in salaries, wages and benefits was \$35,901,000, compared with \$30,867,000 in 1978.

Wypall—Scott's new line of industrial wiping towels was introduced in 1979. Made from bonded cellulose, each towel has the soft feel of cloth but is lint free. High absorbency and capacity make the Wypall towels ideal for use on almost all greases, oils, cleaning solvents and mild abrasives.

Consolidated Statements of Income and Retained Income

	Year ended December 31	
	1979	1978*
	(in thousands)	
Income:		
Sales, less allowances and after deducting		
Federal sales tax of \$8,969,000 (1978-\$9,781,000).....	\$140,522	\$116,539
Interest on short-term investments and gain		
on acquisition of Series A debentures.....	959	76
	<u>141,481</u>	<u>116,615</u>
Expenses (Note 6)		
Cost of products sold.....	98,582	82,153
Selling and distribution expenses.....	23,956	20,592
Administrative and general expenses.....	5,525	4,387
Research and development expenses.....	952	223
Debenture interest and amortization		
of issue costs.....	1,970	2,168
Bank interest.....	690	537
	<u>131,675</u>	<u>110,060</u>
Income before income taxes.....	<u>9,806</u>	<u>6,555</u>
Income Taxes:		
Current.....	2,772	331
Deferred.....	770	1,985
	<u>3,542</u>	<u>2,316</u>
Income for the year.....	<u>\$ 6,264</u>	<u>\$ 4,239</u>
Income per share.....	<u>\$2.55</u>	<u>\$1.75</u>
Retained Income:		
Retained income at beginning of year.....	\$ 28,674	\$ 25,614
Income for the year.....	<u>6,264</u>	<u>4,239</u>
	34,938	29,853
Dividends (Note 8).....	<u>1,589</u>	<u>1,179</u>
Retained income at end of year.....	<u>\$ 33,349</u>	<u>\$ 28,674</u>

*Certain 1978 amounts have been restated to conform with the presentation in 1979.

Consolidated Statement of Financial Position

	December 31	
	1979	1978
	(in thousands)	
Current assets:		
Cash.....	\$ 32	\$ 33
Short-term investments.....	5,776	—
Trade and other accounts receivable	11,439	10,958
Inventories (Note 2).....	24,838	22,010
Prepaid expenses.....	336	306
	<u>42,421</u>	<u>33,307</u>
Current liabilities:		
Bank indebtedness.....	8,498	7,479
Accounts payable and accrued liabilities	14,906	11,204
Income taxes payable	1,983	452
Current portion of long-term debt (Note 4).....	770	770
	<u>26,157</u>	<u>19,905</u>
Working capital	<u>16,264</u>	<u>13,402</u>
Add: Non-current assets —		
Fixed assets (Note 3).....	51,836	52,027
Unamortized debenture discount and issue expenses	296	383
Miscellaneous assets.....	469	321
	<u>52,601</u>	<u>52,731</u>
Deduct: Non-current liabilities —		
Sinking fund debentures (Note 4)	16,336	19,286
Deferred income taxes (Note 1(e)).....	12,133	11,363
	<u>28,469</u>	<u>30,649</u>
Net assets	<u>\$40,396</u>	<u>\$35,484</u>
Shareholders' interest:		
Share capital (Note 5)	\$ 7,047	\$ 6,810
Retained income (Note 4)	33,349	28,674
	<u>\$40,396</u>	<u>\$35,484</u>

APPROVED BY THE BOARD OF DIRECTORS:

G. L. O'Leary
Director

A.W. Fisher
Director

Notes to Consolidated Financial Statements December 31, 1979

1. Summary of significant accounting policies:

(a) Reorganization—

In 1979 the Company amalgamated with its wholly-owned subsidiary, Westminster Paper Company Limited. The assets, other than real estate, previously owned by Westminster Paper Company Limited were sold to a new company, Sancell Inc., in which Scott Paper Limited holds a 50% interest which is accounted for using the equity method. The gain on disposal of the assets was reflected in income to the extent of 50%, and the balance will be recognized over the remaining lives of the assets.

(b) Principles of consolidation—

The consolidated financial statements include the accounts of Scott Paper Limited and its wholly-owned subsidiaries, Omega Products Limited and Westminster Paper Company Limited (newly incorporated in 1979).

(c) Inventories—

Inventories of finished products and work-in-process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

(d) Depreciation and amortization—

Fixed assets—

Depreciation is provided on buildings, machinery and equipment on a straight-line basis over their estimated useful economic lives at rates ranging from 2 1/2% to 20% of original cost per annum.

Debenture discount and issue expenses—

The amortization of debenture discount and issue expenses is provided on a basis related to the principal amount outstanding.

(e) Income taxes—

On January 1, 1968 the Company adopted the tax allocation method of accounting for income taxes for all periods subsequent to that date.

Subsequent to January 1, 1968, the Company

has provided for deferred income taxes arising primarily from claiming capital cost allowances available for income tax purposes in excess of depreciation charged to operations.

Prior to January 1, 1968, the Company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on its fixed assets. Because capital cost allowances exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 which have not been recorded as deferred income taxes.

The Company follows the practice of recognizing the investment tax credit currently as a reduction of income tax expense.

2. Inventories:

Inventories consist of—

	December 31	
	1979	1978
	(in thousands)	
Finished products and work-in-process ..	\$14,212	\$13,277
Raw materials and supplies	10,626	8,733
	<u>\$24,838</u>	<u>\$22,010</u>

3. Fixed assets:

Fixed assets consist of—

	December 31	
	1979	1978
	(in thousands)	
Land at cost	\$ 623	\$ 574
Buildings, machinery and equipment, at cost	90,420	86,262
Less: Accumulated depreciation	39,207	34,809
Net book value of depreciable assets....	51,213	51,453
	<u>\$51,836</u>	<u>\$52,027</u>

4. Sinking fund debentures:

	December 31			
	1979		1978	
	8 3/4% Series A	11 5/8% Series B	Total	Total
	(in thousands)			
Principal amount issued	<u>\$12,000</u>	<u>\$11,000</u>	<u>\$23,000</u>	<u>\$23,000</u>
Principal amount outstanding	\$ 7,646	\$ 9,460	\$17,106	\$20,056
Less: Payments due within one year	—	770	770	770
	<u>\$ 7,646</u>	<u>\$ 8,690</u>	<u>\$16,336</u>	<u>\$19,286</u>

8³/₄% sinking fund debentures, Series A—

The Series A debentures were issued on July 2, 1971 with a maturity date of July 2, 1991 and require that mandatory sinking fund payments be made in each of the years 1974 to 1990 to retire \$360,000 of the debentures per annum with an option to retire a further \$180,000 per annum. At December 31, 1979 the Company had acquired \$2,194,000 in excess of the minimum mandatory retirement amounts which will be available to meet future sinking fund requirements.

11⁵/₈% sinking fund debentures, Series B—

The Series B debentures were issued on December 9, 1975 with a maturity date of October 31, 1990 and require that mandatory sinking fund payments be made in each of the years 1978 to

1989 to retire \$770,000 of the debentures per annum.

The trust agreement contains a distribution test formula which limits the availability of retained income for payment of dividends. As of December 31, 1979 approximately \$17,405,000 is available for distribution under the most restrictive tests.

Minimum sinking fund payments required for Series A and B debentures in each of the five years following December 31, 1979 is as follows—

1980	\$770,000*
1981	\$770,000*
1982	\$770,000*
1983	\$770,000*
1984	\$770,000*

*Net of amounts acquired and lodged for future sinking fund requirements.

5. Share capital:

The authorized share capital of the Company consists of 6,000,000 common shares without par value of which 2,455,900 are issued and outstanding. Of the 3,544,100 unissued shares, 94,100 are reserved for options under the "Key Employee Stock Option Plan". The following options are outstanding (but not yet exercised)—

Number of shares	Option price per share	Expiry date
75,650	\$ 8.00	October 23, 1981
12,000	\$11.25	April 24, 1984
6,400	\$13.75	September 11, 1984

During 1979, options to purchase 29,650 shares at \$8.00 were exercised.

6. Expenses include:

	December 31	
	1979	1978
	(in thousands)	
Depreciation.....	\$4,732	\$4,661
Remuneration for 19 directors and senior officers	\$ 982	\$ 780 *

*The 1978 remuneration for 13 directors and senior officers amounting to \$472,000 has been restated to include the 1978 remuneration for the 19 directors and senior officers whose remuneration is disclosed in 1979.

Research and development programmes (1979 includes \$610,000 paid or payable to Scott Paper Company pursuant to an agreement applicable to 1979 and future years)

\$ 952	\$ 223
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7. Pension plans:

The Company's hourly employees at the Western Manufacturing Division are members of an industry pension plan to which the Company contributes. In addition, the Company has a number of contributory pension plans, participation being available to substantially all of its other employees. Length of service and individual earnings determine the pensions and retirement benefits for all members of the Company plans. It is the Company's practice to provide for its portion of the cost of pensions and retirement benefits accrued, through charges to earnings determined by periodic actuarial computations. The most recent actuarial reports revealed that the plans were, in aggregate, fully funded.

8. Dividends paid:

The Company paid four quarterly dividends during the year amounting in total to \$1,589,000. Dividends were paid at a rate of 15 cents per share for the first and second quarters and were increased to a rate of 17.5 cents per share for the third and fourth quarters.

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1979	1978
	(in thousands)	
Financial resources were provided by:		
Operations		
Income for the year	\$ 6,264	\$ 4,239
Items which did not involve an outlay of working capital—		
Depreciation	4,732	4,661
Deferred income taxes	770	1,985
Amortization of debenture issue costs	87	48
Loss on disposal or retirement of fixed assets	85	93
	11,938	11,026
Issue of common shares	237	198
Proceeds on disposal of fixed assets	629	98
	<u>12,804</u>	<u>11,322</u>
Financial resources were used for:		
Additions to fixed assets	5,255	7,773
Dividends	1,589	1,179
Reduction of long-term debt	2,950	1,068
Increase in miscellaneous assets	148	21
	<u>9,942</u>	<u>10,041</u>
Increase in working capital during the year	2,862	1,281
Working capital at beginning of year	13,402	12,121
Working capital at end of year	<u>\$16,264</u>	<u>\$13,402</u>

Auditors Report

To the Shareholders of
Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited as at December 31, 1979 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

1075 West Georgia Street,
Vancouver, B.C.
February 15, 1980

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Ten Year Review

	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Sales and Earnings	(thousands of dollars except per share)									
Net sales	\$140,522	116,539	103,884	99,431	84,629	73,571	56,295	48,118	42,910	39,762
Depreciation	4,732	4,661	3,831	3,869	3,286	3,008	2,394	2,031	1,780	1,426
Interest expense	2,660	2,705	2,471	2,306	2,115	1,220	1,099	1,103	879	448
Income before taxes ..	9,806	6,555	5,674	6,143	5,404	5,523	3,538	3,244	3,049	3,183
Income taxes	3,542	2,316	2,015	2,578	2,445	2,586	1,544	1,557	1,463	1,600
Income after taxes	6,264	4,239	3,659	3,565	2,959	2,937	1,994	1,687	1,586	1,583
Per Share*										
Income before taxes ..	\$ 3.99	2.70	2.36	2.56	2.25	2.30	1.47	1.35	1.27	1.33
Income after taxes	2.55	1.75	1.52	1.49	1.23	1.22	.83	.70	.66	.66
Cash flow-operations ..	4.86	4.54	3.90	3.74	3.21	3.10	2.34	1.78	1.63	1.58
Dividends paid	.65	.49	.43	.40	.40	.33	.33	.32	.30	.30
Shareholders' equity ..	16.45	14.63	13.42	12.33	11.25	10.41	9.52	9.03	8.64	8.28
Number of shares outstanding (thousands)	2,456	2,426	2,402	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Condensed Funds Statement										
Source of funds										
—operations	\$ 11,938	11,026	9,373	8,983	7,705	7,447	5,619	4,266	3,918	3,799
—long term financing and other	866	296	37	38	10,892	58	429	55	11,482	2,804
	12,804	11,322	9,410	9,021	18,597	7,505	6,048	4,321	15,400	6,603
Expenditures for										
—fixed assets	5,255	7,773	9,813	7,589	7,056	7,816	5,677	3,087	3,376	6,701
—dividends	1,589	1,179	1,040	960	960	800	800	760	720	720
—repayment of long term borrowing and other	3,098	1,089	1,139	195	13	763	608	—	6,100	—
	9,942	10,041	11,992	8,744	8,029	9,379	7,085	3,847	10,196	7,421
Net increase (decrease) in working capital	\$ 2,862	1,281	(2,582)	277	10,568	(1,874)	(1,037)	474	5,204	(818)
Financial Position										
Current assets	\$42,421	33,307	33,727	31,215	25,960	23,416	13,974	13,248	12,990	11,113
Current liabilities	26,157	19,905	21,606	16,512	11,534	19,558	8,242	6,479	6,695	10,022
Working capital	16,264	13,402	12,121	14,703	14,426	3,858	5,732	6,769	6,295	1,091
Fixed assets at net book value	51,836	52,027	49,106	43,170	39,480	35,740	31,031	28,206	27,206	25,610
Long term debt	16,336	19,286	20,354	21,464	21,633	10,636	11,400	12,000	12,000	6,100

*Years 1970-1977 have been restated to reflect a 3 for 1 share split on December 4, 1978.

The Board of Directors – Scott Paper Limited



Seated left to right:

James D. Stocker, Vice President, Group Executive & director, Scott Paper Company, Philadelphia, Pa.; **Robert T. Stewart**, Group Vice President, Vancouver, B.C.; **George L. O'Leary**, Chairman, President & Chief Executive Officer, Vancouver, B.C.; **W. Douglas H. Gardiner**, Vice Chairman, The Royal Bank of Canada, Toronto, Ontario; **Peter J. Peters**, Group Vice President, Vancouver, B.C.

Standing:

Bernard A. Goulet, Group Vice President, Vancouver, B.C.; **Chester A. Johnson**, President, Whonnock Industries Limited, Vancouver, B.C.; **H. Clark Bentall**, Chairman & Chief Executive Officer, Dominion Construction Co. Ltd., Vancouver, B.C.; **Gilbert C. Clarke**, Retired Businessman, London, Ontario; **Marcellin Tremblay**, President, Canadian Provident Group, Montreal, Quebec; **Alex W. Fisher**, Q.C., Associate Counsel, Davis & Company, Vancouver, B.C.

Officers and Executive Management

GEORGE L. O'LEARY
Chairman, President & Chief Executive Officer

JAMES C. BOYLE
Division Vice President (Industrial Marketing)

W. MICHAEL FERRIE
Division Vice President (Corporate Personnel)

BERNARD A. GOULET
Group Vice President

SERGE GUAY
*Division Vice President,
General Manager, Eastern Manufacturing Division*

JOHN J. HERB
Secretary

DOUGLAS HOLME
Corporate Vice President (Corporate Development)

RALPH M. KITOS
*Division Vice President,
General Manager, Western Manufacturing Division*

PETER J. PETERS
Group Vice President & Treasurer

JOHN F. PHILIP
Division Vice President (Ventures)

ROBERT T. STEWART
Group Vice President

DAVID H. R. STOWE
Corporate Vice President (Consumer Marketing)

Transfer Agent and Registrar

THE CANADA TRUST COMPANY
Vancouver, Calgary, Toronto, Montreal and Halifax

Stock Listings

Vancouver, Toronto and Montreal Stock Exchanges

Joint Venture Company

50% Interest in Sancella Inc.

Board of Directors

H. CLARK BENTALL*
*Chairman & Chief Executive Officer
Dominion Construction Co. Ltd.
Vancouver, B.C.*

GILBERT C. CLARKE
*Retired Businessman
London, Ontario*

ALEX W. FISHER, Q.C. †
*Associate Counsel
Davis & Company, Vancouver, B.C.*

W. DOUGLAS H. GARDINER †
*Vice Chairman
The Royal Bank of Canada, Toronto, Ontario*

BERNARD A. GOULET
*Group Vice President
Vancouver, B.C.*

CHESTER A. JOHNSON †
*President
Whonnock Industries Limited
Vancouver, B.C.*

GEORGE L. O'LEARY *†
*Chairman, President
& Chief Executive Officer
Vancouver, B.C.*

PETER J. PETERS*
*Group Vice President
Vancouver, B.C.*

ROBERT T. STEWART
*Group Vice President
Vancouver, B.C.*

JAMES D. STOCKER*
*Vice President, Group Executive & Director
Scott Paper Company, Philadelphia, Pa.*

MARCELLIN TREMBLAY
*President
Canadian Provident Group
Montreal, Quebec*

* Member of the Executive Committee
† Member of the Audit Committee

Annual Meeting

The company's Annual Meeting of Shareholders will be held at 11:00 a.m. on April 22, 1980 in the Waddington Room of the Hotel Vancouver, Vancouver, British Columbia



TO OUR SHAREHOLDERS AND EMPLOYEES

Your directors are pleased to report a solid company performance for the six-month period ended June 30, 1979.

Net sales increased to \$71,161,000 compared with \$58,989,000 for the same period in 1978 — a 20.6 per cent increase — and net income rose 32.1 per cent to \$2,752,000, against \$2,083,000.

The net income for the first six months per ordinary share amounted to \$1.13 compared with 87 cents for the same period a year ago.

The comparative increase in the net sales income resulted from several factors: the strong performance in the consumer and the industrial package products divisions, price increases during the period, and the inclusion of sales from our new Lennoxville, Quebec, plant which our company purchased last fall.

In the industrial products area, we recently introduced a new high-quality wiper product and we are pleased to report that the initial response has been very encouraging.

The increase in earnings after taxes, results not only from a good productivity performance in our mills but from a slightly lower tax rate during the six-month period this year and a significant reduction in interest payments through the earlier redemption of debentures and lower bank loans. A five-week shutdown of No. 4 paper machine at the Crabtree, Quebec operation because of a fire in 1978 also reflects in the comparative figures.

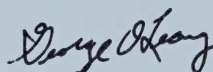
The per share dividend for the six-month period was 30 cents, an increase from the 23 cents paid for the same period a year ago. The quarterly rate for the dividend to be paid July 31, 1979 will be 17.5 cents, compared to 12 cents a year ago.

The company's working capital position and its cash flow both improved during the six-month period.

The first quarter report this year told about the new Canadian company that was being formed as a joint venture with Molnlyke AB of Sweden. We can now report that the new company, Sancell Inc. has acquired the operating assets of our wholly-owned subsidiary, Westminster Paper Company Limited, and commenced operations July 3.

Despite continuing unsettled economic conditions, we are optimistic that the remainder of 1979 will show good results for our company.

For the Board of Directors,



G. L. O'Leary
Chairman

Vancouver, B.C.
July 11, 1979

SCOTT PAPER LIMITED
Box 3600, Vancouver, B.C. Canada V6B 3Y7

SCOTT

SCOTT PAPER LIMITED

REPORT TO THE SHAREHOLDERS For the First Six Months of 1979



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SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF INCOME

(in thousands except on a per share basis)

	First Six Months 1979	First Six Months 1978
Sales, less discounts and allowances	\$71,161	\$58,989
Expenses (Note 1):		
Cost of products sold	50,653	41,330
Marketing, general, administrative and development expenses	15,022	12,968
Interest and amortization of debenture issue costs	1,157	1,385
	66,832	55,683
Income before taxes	4,329	3,306
Provision for taxes on income	1,577	1,223
Income after taxes for the period	\$ 2,752	\$ 2,083
Income per share after taxes	\$1.13	\$.87*
Dividends paid per share	.30	.23*
Number of common shares outstanding	2,442.4	2,402.3*

NOTE 1 — Expenses include depreciation of \$2,728 (1978 — \$2,116).

*Restated to reflect 3 for 1 share split on December 4, 1978.

Unaudited and subject to year-end adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

(in thousands)

	First Six Months 1979	First Six Months 1978
SOURCE:		
Income for the period	\$ 2,752	\$ 2,083
Add — Charges which did not involve an outlay of working capital:		
Depreciation (Note 1)	2,728	2,116
Deferred income taxes	1,120	520
Amortization of debenture issue costs	65	21
Net decrease of miscellaneous items	6	6
Proceeds — issued share capital	128	6
	6,799	4,752
APPLICATION:		
Net additions to fixed assets	1,092	2,272
Dividends	731	549
Purchase of Series A debentures	2,086	291
	3,909	3,112
Increase in working capital during the period	2,890	1,640
Add — Working capital at beginning of the year	13,402	12,121
Working capital at end of the period	\$16,292	\$13,761